



News and Views

Pennsylvania Economy League

CENTRAL DIVISION

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A RARE OPPORTUNITY TO REDUCE REAL ESTATE TAX COLLECTION COSTS... THE TIME TO ACT IS APPROACHING

DURING THE NEXT 12 MONTHS, COUNTIES, MUNICIPALITIES, AND SCHOOL DISTRICTS IN PENNSYLVANIA HAVE A ONCE-IN-FOUR-YEARS OPPORTUNITY TO BRING ABOUT SAVINGS IN THEIR REAL ESTATE TAX COLLECTION COSTS. PRIOR TO FEBRUARY 15, 2001, LOCAL GOVERNING BODIES CAN CHANGE THE METHODS AND RATES OF COMPENSATION FOR ELECTED TAX COLLECTORS, AND THESE METHODS AND RATES WILL BECOME EFFECTIVE FOR THOSE TAX COLLECTORS ELECTED TO FOUR-YEAR TERMS OF OFFICE BEGINNING IN JANUARY 2002. IT IS TIME FOR LOCAL OFFICIALS AND TAXPAYERS TO BEGIN TO DO THEIR HOMEWORK SO THAT THEY CAN MAKE THE BEST OF THIS RARE COST-SAVING OPPORTUNITY.

In view of this opportunity, PEL will undertake a series of analyses of the cost of collecting borough, township, school district, and county real estate taxes in Berks, Cumberland, Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Northampton, and York counties. The resulting reports, which will be released late in the fall of this year, will demonstrate ways to control tax collection costs and identify the potential for annual savings without negatively affecting the tax collection process.

When similar windows of opportunity were open prior to past municipal elections, PEL analyzed real estate tax collection costs in more than 500 jurisdictions in the ten counties listed above and identified millions of dollars in potential annual savings. Jurisdictions were advised to shift from the traditional commission form of compensation to the more appropriate salary or "per bill" payments and/or to lower their rates of compensation.

These recommendations were made in part because PEL found that there were major deficiencies in the commission approach. Unlike salaries or "per bill" compensation, commissions were not directly related to work loads; instead, they were based on the value of the taxables and on the tax rate. An increase in the assessed valuation of a property or in the millage rate produced increased commissions for the tax collectors, but the workload remained unchanged. Also, large tax bills generated large commissions, yet they were no more expensive to handle than small ones. PEL concluded that not only were salary and "per bill" compensation more logical and more in keeping with the work performed, but these approaches also proved to be less costly as well.

Periodic surveys designed to document the actions of public officials in the ten-county area in response to PEL's analyses of the cost-saving opportunity revealed hundreds of thousands of dollars in

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conjunction with a shift from commission-based compensation to salary or “per bill” payments.

One county reduced its “per bill” compensation and estimated its savings at \$40,000 per year; another cut its commission rates virtually in half. Similarly, one school district reported savings equal to one mill of real estate tax; other districts estimated annual savings of between \$600 and \$36,000. Boroughs and townships reported annual reductions in costs ranging from \$500 to \$4,000.

In spite of documentation suggesting the potential for savings, many jurisdictions failed to make any changes; in some cases the jurisdictions which failed to act were among those with the greatest potential for reducing compensation costs.

PEL’s series of reports in the year 2000, like those in 1996, will prove to be more challenging to produce than those of prior years because Act 48 of 1994 repealed the requirement that tax collectors annually file reports with the Commonwealth outlining, among other items, the amount of taxes collected for each jurisdiction, compensation paid, and expenses incurred. In view of this, PEL will have to rely on the cooperation of county, school, and municipal officials in generating the data necessary for the successful completion of this series of reports.

More recent legislation (Act 169 of 1998) requires that tax collectors regularly file reports with the taxing jurisdictions they serve detailing the taxes collected using standard forms provided by the Department of Community and Economic Development. However, these reports will not be available in time to aid in PEL’s analysis.

During the second quarter, PEL will ask key local officials to respond to a brief survey designed to identify the methods and rates of compensation of

their elected tax collectors, total taxes collected in 1999, and the compensation paid. We hope every local official will promptly complete the survey and return it. It will represent a minor investment in time and allow PEL to produce data which will help public officials better meet their responsibility to ensure that the functions of their governmental units are carried out in the most cost-effective manner.

PEL has long recommended the elimination of elective tax collectors and treasurers and, as an alternative, the countywide centralization of the tax collection function. This would undoubtedly result in a more cost-effective approach to the collection of real estate taxes, but it would require action by Pennsylvania’s General Assembly. PEL continues to encourage the state legislature to make changes in Pennsylvania’s tax collection laws to allow for more modern and less costly real estate tax collection methods.

LOCAL OFFICIALS, UNDER EXISTING LEGISLATION, CAN DIRECTLY INFLUENCE THE COST OF REAL ESTATE TAX COLLECTION ONLY BY MODIFYING THE METHOD AND/OR RATE OF COMPENSATION OF THEIR TAX COLLECTORS, AND THEY MUST PREPARE TO ACT NOW IF SAVINGS ARE TO BE REALIZED. FINAL ACTION IN SETTING THE METHODS AND RATES OF COMPENSATION OF ELECTED TAX COLLECTORS BY LOCAL TAXING JURISDICTIONS MUST BE TAKEN PRIOR TO FEBRUARY 15, 2001. THIS PEL ALERT ALLOWS LOCAL OFFICIALS MORE THAN ONE-YEAR TO PREPARE TO TAKE APPROPRIATE ACTION.